

Ditch the Pitch, FAs Crave Technical Analysis Ignites Article published on Dec 14, 2007

By Kevin Burke

Fund companies not aggressively recasting their sales forces to reflect advisors' growing need for more technical product analysis may be handicapping their own potential.

New research from sales consulting firm Momentum Partners and Registered Rep. magazine shows that advisors still aren't getting the necessary support from investment managers despite reps' repeated calls for more advanced sales support.

While mutual fund complexes have been slowly chipping away at restructuring their wholesaling models, very few have been able to satiate advisor demand for less product pitching and more high-level, intellectual conversations with investment management teams.

The number of financial advisors who report wanting to meet with portfolio managers and product specialists is nearly double that of those wanting visits from product wholesalers, according to the study, "Investment Product Distribution 2007: A New World Order." Such results serve as further evidence that traditional wholesalers have to change their approach to product sales or risk becoming far less relevant.

Momentum polled a cross section of 537 intermediaries representing various distribution channels — including wirehouse, regional broker-dealer, RIA, independent b-d, bank and trust officers, financial planners and wealth managers — for the report.

"Advisors aren't being touched with the right information," says Lisa Cohen, president of Momentum Partners and a former managing director of product management at Evergreen Investments. "As a result, there is a clear opportunity for asset managers to organize themselves differently to respond to advisors' demands, and in doing so, grow their businesses. But we're not there yet."

In order to capitalize, fund firms need to hire asset class specialists to accompany wholesalers on sales meetings to explain how the product should be positioned. "Firms have to transition their existing sales and service model to a sales engineer model that is more technical and consulting oriented," Cohen says.

Under the new sales paradigm, firms must redefine existing roles and create new ones within their organizations, she says. "It requires a little more fluidity between the different sides of the house — linking sales and product development with portfolio management and research."

Firms may want to hire wholesalers or other sales personnel that carry a certified financial analyst (CFA) license or other designation that might lend more credibility to their role as a liaison between the advisor and the money manager. Or, at the very least, they may look for a retail sales professional that has extensive knowledge of, and experience with, a particular asset class.

In addition to conversations with specialists, advisors want regular output of white papers, webinars and podcasts. Survey respondents said they prefer software and tools that make it easier for them to evaluate a particular investment style or asset class and where it fits in client portfolios.

Other consultants say that mutual fund companies have already begun mobilizing. “A lot of firms are ramping up their due diligence teams and product specialists,” says Chris Brown, principal at Sway Research. They’re looking for people who can explain the portfolio manager’s buy and sell discipline, a justification of the fund’s holdings, how it reacts in different market conditions and why it reacts that way, he says.

Some firms have even formed a dedicated group to handle this function. MFS Investment Management, for example, launched its MFS Advisory Resources Group a year ago to better align the firm with the analytical/research teams imbedded within intermediaries.

But it isn’t easy to find someone that brings intelligence and qualifications to the table as well as a keen understanding of retail sales. “Firms are scrambling to find the bodies to fill those roles who they can offer a competitive compensation package,” Brown says.

With greater disclosure of revenue-sharing agreements and more stringent oversight of mutual fund sales practices by regulators, broker-dealer and RIA due diligence teams have emerged as a powerful influence over manager selection.

Still, 49% of reps surveyed that sell load-bearing funds run their own fund screens in addition to what the in-house gatekeepers provide, the survey says. Therefore, asset managers must prove their products to both internal due diligence groups and to the individual financial advisors, Cohen says.

Top producers would certainly benefit from more frequent contact with individuals intimately involved with managing a portfolio. But Andre Cappon, president of management consulting firm CBM Group, says the logistics of advisors' meeting one-on-one with portfolio managers and top analysts is next to impossible. Beyond taking a few days off from running the portfolio to do an annual road show, managers don’t have the time to participate in the sales process.

The good wholesalers, Cappon says, should be able to explain the nuances of the funds they sell just as well as the portfolio manager.

Further, the best wholesalers can do it in a way that the broker can understand very quickly given that most reps' time is at a premium. Portfolio managers and some of the quantitative minds at fund complexes may not be able to speak the same language as the brokers the fund is aiming to win over, he adds.